

HOUSE BILL REPORT

SB 6828

As Passed House - Amended-:

March 12, 2002

Title: An act relating to the disposition of the state's revenues from the tobacco litigation national master settlement agreement.

Brief Description: Securitizing a portion of the state's revenue from the tobacco litigation national master settlement agreement.

Sponsors: By Senators Brown and Swecker.

Brief History:

Floor Activity:

Passed House - Amended: 3/12/02, 50-46.

Brief Summary of Bill
(As Amended by the House)

- Establishes the Tobacco Settlement Authority (TSA).
- Authorizes the Governor to sell the TSA a portion of the state's right to receive payments under the Master Settlement Agreement with the tobacco companies.
- Authorizes the TSA to issue bonds against the payments.
- Net bond proceeds are deposited in a trust account.

Majority/Minority Report: None.

Staff: Kristen Fraser (786-7148).

Background:

In June 1996, the state of Washington brought suit against the major tobacco companies, seeking reimbursement for costs incurred in treating tobacco-related illnesses as well as damages for violations of consumer protection and anti-trust laws. On November 23, 1998, the Attorneys General and other representatives of 46 states announced a national settlement with the five largest tobacco manufacturers. The settlement of Washington's case was approved by the King County Superior Court and the decision became final on

December 24, 1998.

The national master settlement agreement requires annual payments by the tobacco companies to the participating states; up to \$206 billion will be received during the first 25 years of the agreement. The state of Washington is scheduled to receive approximately \$4.0 billion during the first 25 years, with \$323 million received during the 1999-01 fiscal biennium. The settlement agreement does not restrict the state's use of the moneys; the Legislature may direct the moneys to be expended for any purpose. During the 1999-01 and 2001-03 biennia, the moneys have been used to support a tobacco prevention and control program in the Department of Health and to support the Basic Health Plan and other health programs funded by the Health Services Account.

Summary of Bill:

The Legislature intends to securitize the revenue stream from the tobacco national master settlement agreement to provide a current and reliable source of revenue for the state.

The Tobacco Settlement Authority is established as a state agency, separate and distinct from the state. The authority is governed by a board of five members appointed by the Governor. Administrative support for the authority is provided by the staff of the state Housing Finance Commission.

The Tobacco Settlement Authority is given the power to purchase a portion of the amounts otherwise due to the state under the tobacco national master settlement agreement, issue bonds, and sell or pledge the revenues derived under a sales agreement to secure the issuance of the bonds. These bonds are not general obligations of the state of Washington and are obligations only of the authority, payable solely by special funds created by the authority for their payment.

The Governor is authorized to sell and assign to the Tobacco Settlement Authority the state's right to receive a portion of the state's annual share of the revenue from the tobacco national master settlement agreement. The Governor determines the portion of the state's share to be sold and assigned based on the amount necessary to generate net proceeds to the state for deposit to the tobacco securitization trust account, up to \$450 million.

The sale agreements must contain, in addition to terms determined appropriate by the Governor and Tobacco Settlement Authority, the following: (1) the state's covenant that it will not agree to an amendment of the master settlement agreement that materially affects the authority's ability to receive the portion of the state's share of the agreement payments that have been sold to the authority; (2) a requirement for the state to enforce payment of the portion of the state's share of the agreement payments that have been sold to the authority; (3) the state's covenant that it will not take action that would adversely

affect the tax-exempt status of any tax-exempt bonds of the authority.

Proceeds of the sales of revenue from the master settlement agreement are deposited in the tobacco securitization trust account. Moneys in the account are subject to appropriation and transfer as provided by law, to be used for capital expenditures, debt service on outstanding state bonds, or for other purposes permitted by law.

The revenue sold and assigned to the Tobacco Settlement Authority is not received in the state's treasury and is not deemed general state revenues. Income received by the authority is not subject to the state's business and occupation tax.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: None.

Testimony Against: None.

Testified: None.